Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Message Text

CONFIDENTIAL

PAGE 01 LONDON 12780 01 OF 02 181924Z

47
ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 TRSE-00 FRB-03 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01

H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 /094 W
---------- 105981
R 181905Z AUG 75
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 3912
INFO USMISSION OECD PARIS
AMEMBASSY OSLO
AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 12780

DEPARTMENT PASS TREASURY, FRB

E.O. 11652: XGDS
TAGS: UK, ENRG, EFIN
SUBJ: NORTH SEA OIL: PARTICIPATION NEGOTIATIONS

REF: LONDON 9080

1. SUMMARY: THE BRITISH GOVERNMENT IS WELL INTO THE SECOND ROUND OF ITS NEGOTIATIONS WITH NORTH SEA LICENSEES REGARDING 51 PERCENT PARTICIPATION BY THE BRITISH NATIONAL OIL COMPANY IN LICENSES. NEGOTIATIONS ARE VOLUNTARY AND PARTICIPATING COMPANIES WILL BE NO WORSE OFF THAN BEFORE. THE GOVERNMENT HAS ADVANCED ONE PROPOSAL TO BRING THIS ABOUT AND HAS INVITED COMPANIES TO COMMENT AND MAKE COUNTER PROPOSALS. END SUMMARY.

2. AUGUST 7, WILCOCK (CONTINENTAL SHELF POLICY DIVISION, DEPARTMENT OF ENERGY, GAVE US DETAILED SUMMARY OF PRESENT STATUS HMG'S PROPOSALS TO NORTH SEA LICENSEES TO ACQUIRE 51 PERCENT PARTICIPATION IN
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 12780 01 OF 02 181924Z

LICENSES. THIS BRIEFING WAS SUGGESTED BY WILCOCK

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

AFTER WE ENQUIRED ABOUT MEETING OF MAJOR INTERNATIONAL BANKS IN LONDON, CONVENED BY DEPARTMENT OF ENERGY AT BANK OF ENGLAND JULY 31, TO OUTLINE GOVERNMENT'S PARTICIPATION POLICY. THE MEETING OF BANKERS, THE INCREASED TEMPO OF MEETINGS WITH COMPANIES, AND THE FACT THAT DEPARTMENT OF ENERGY VOLUNTEERED TO BRIEF US, EVIDENCE INCREASED GOVERNMENT EFFORT TO ACHIEVE RESULTS IN NEGOTIATIONS, AND TO MAKE SURE ITS CASE IS FULLY UNDERSTOOD BY FINANCIAL COMMUNITY AND GOVERNMENTS CONCERNED.

3. WILCOCK BEGAN BY SUMMARIZING BACKGROUND OF PARTICIPATION NEGOTIATIONS. HE EMPHASIZED FOLLOWING POINTS. FIRST, PARTICIPATION IS VOLUNTARY, AND COMPANIES CAN DECIDE NOT TO ACCEPT PARTICIPATION IF THEY WISH. HOWEVER, IN SUBSEQUENT DISCUSSION HE ACKNOWLEDGED THAT CONSPICUOUS OR LARGE SCALE EXCEPTIONS TO PARTICIPATION MIGHT LEAD TO MOVES AT POLITICAL LEVEL TO INCLUDE RELUCTANT LICENSEES IN SOME FORM OF PARTICIPATION ARRANGEMENTS. SECOND, THE GOVERNMENT HAS BEEN GUIDED IN ITS SEARCH FOR AN ACCEPTABLE FORMULA FOR PARTICIPATION BY TWO CONSIDERATIONS, THE NEED TO MINIMIZE PUBLIC EXPENDITURES, ESPECIALLY IN THE SHORT TERM, AND THE DESIRE NOT TO "DISCOURAGE" THE COMPANIES BY LEAVING THEM WORSE OFF THAN BEFORE. THIRD, PARTICIPATION WAS NEVER CONCEIVED AS A MEANS OF INCREASING THE GOVERNMENT'S "TAKE." REVENUE IS AN OBJECT OF FISCAL POLICY, DEPARTMENT OF ENERGY'S CONCERN IS TO MAXIMIZE NORTH SEA OIL PRODUCTION. FOURTH, NEGOTIATIONS WITH COMPANIES, WHICH HAD BEEN REDUCED OR SUSPENDED DURING DISCUSSIONS OF PETROLEUM REVENUE TAX AND THE PIPELINE BILL ARE NOW REGAINING THEIR FORMER FREQUENCY. (A US OIL COMPANY TELLS US VIRTUALLY ALL COMPANIES OPERATING IN NORTH SEA HAVE NOW HAD A SECOND ROUND OF DISCUSSIONS WITH GOVERNMENT).

4. IN MOST RECENT ROUND OF NEGOTIATIONS, GOVERNMENT HAS AGAIN INVITED COMPANIES TO PUT FORWARD SUGGESTIONS AS TO HOW PARTICIPATION MIGHT BE EFFECTED WHILE LEAVING THEM "NO WORSE OFF." AS BASIS FOR DISCUSSION, GOVERNMENT CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 12780 01 OF 02 181924Z

HAS PUT FORWARD A "MODEL," WHILE STRESSING THAT IT WELCOMES COUNTER SUGGESTIONS, AND RECOGNIZES THAT NO SINGLE PROPOSAL CAN FIT THE SITUATION OF EACH OF 36 COMPANIES IN THE NORTH SEA. WHILE WE WERE SHOWN THE MODEL, WE WERE ASKED TO RESPECT THE PRIVILEGED CHARACTER OF THE GOVERNMENT'S NEGOTIATIONS WITH THE COMPANIES AND NOT TO INFORM THE COMPANIES THAT WE HAD SEEN IT. PLEASE PROTECT.

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

5. THE MODEL DEMONSTRATES HOW A REFUND SYSTEM MIGHT WORK
FOR A HYPOTHETICAL FIELD OF 50 MILLION TONS. IN BRIEF,
IT ILLUSTRATES A COMPUTATION OF A COMPANY'S GROSS REVENUE
(AFTER DEDUCTION OF CAPITAL REPAYMENTS AND INTEREST/
UPLIFT; OPERATING COSTS, ROYALTIES, PETROLEUM REVENUE
TAX AND CORPORATION TAX) BOTH WITH AND WITHOUT

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 12780 02 OF 02 181924Z

47
ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 TRSE-00 FRB-03 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01

H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 /094 W
---------- 105985
R 181905Z AUG 75
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 3913
INFO USMISSION OECD PARIS
AMEMBASSY OSLO
AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 02 OF 02 LONDON 12780

PARTICIPATION. THE DIFFERENCE IS REFUNDED TO THE
COMPANY UNDER SECTION 41 OF THE PETROLEUM AND SUBMARINE
PIPELINE BILL. THE MODEL HAS EIGHT COLUMNS.
COLUMN 1 SHOWS TOTAL FIELD DEVELOPMENT EXPENDITURES
WITHOUT PARTICIPATION.
COLUMN 2 SHOWS COMPANY REVENUE FROM THE FIELD WITHOUT
PARTICIPATION NET OF ROYALTIES, TAXES AND OPERATING
COSTS BUT BEFORE DEDUCTING CAPITAL COSTS.
COLUMN 3 SHOWS SAME DATA AS COLUMN 2 WITH PARTICIPATION.
COLUMN 4 IS THE DIFFERENCE BETWEEN COLUMNS 2 AND 3,
AND SHOWS THE REDUCTION IN COMPANY REVENUE AS A RESULT
OF PARTICIPATION.

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

COLUMN 5 SHOWS THE REDUCTION IN CAPITAL EXPENDITURES INCURRED BY THE COMPANY AS A RESULT OF PARTICIPATION AND IS 51 PERCENT OF COLUMN 1 FROM THE YEAR PARTICIPATION BEGINS.
COLUMN 6 SHOWS THE PAYMENT TO THE COMPANY BY BNOC TAKING ACCOUNT OF THE REDUCED REVENUE (COL. 4) AND THE RECOVERY OF CAPITAL OUTLAY BY BNOC (COL. 5) TOGETHER WITH AN UP-LIFT OF 75 PERCENT IN LIEU OF INTEREST.
COLUMN 6 IS THUS THE DIFFERENCE BETWEEN COL. 4 AND L75
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 12780 02 OF 02 181924Z

PERCENT OF COL. 5.
COLUMN 7 SHOWS A "RISK PREMIUM" (X) AND "CHARGE FOR CAPITAL" (Y). THE "RISK PREMIUM" IS DESIGNED TO OFFSET THE COMPANY'S REDUCED EXPOSURE (AS A RESULT OF PARTICIPATION) TO SUCH RISKS AS GEOLOGICAL AND EQUIPMENT UNCERTAINTIES, COST ESCALATION, SUPPLY CONSTRAINTS AND OPEC PRICE UNCERTAINTIES. THE "CAPITAL CHARGE" OFFSETS THE BENEFIT THE COMPANY RECEIVES AS A RESULT OF LOWER CAPITAL OUTLAYS. BOTH X AND Y ARE NEGOTIABLE AND WILL VARY WITH EACH SPECIFIC SITUATION.
COLUMN 8 SHOWS THE NET PAYMENT BY BNOC TO THE COMPANY WHICH IS COL. 6 MINUS THE SUM OF X PLUS Y SHOWN IN COL.7.
.

6. DEPARTMENT OF ENERGY RECOGNIZES THAT IF THE MODEL IS FOLLOWED THE CALCULATION OF THE RISK PREMIUM (X) AND REDUCED CAPITAL OUTLAY FACTOR (Y) AND THE CAPITAL RECOVERY RATE ARE GOING TO BE CRITICAL POINTS IN NEGOTIATIONS WITH COMPANIES. THROUGHOUT THE CONVERSATION WILCOCK EMPHASIZED THE TENTATIVE NATURE OF THE GOVERN-MENT'S SPECIFIC PROPOSALS, ITS FLEXIBILITY AND WILLING-NESS, TO DISCUSS METHODS, AND ITS DETERMINATION TO INVOLVE THE COMPANIES IN SERIOUS NEGOTIATIONS. SOME COMPANIES, HE SAID, HAVE MADE COUNTER PROPOSALS THAT DIFFER SUBSTANTIALLY FROM GOVERNMENT MODEL.

7. BANKERS WITH WHOM DEPARTMENT OF ENERGY OFFICIALS HAVE DISCUSSED GENERAL CONTENT OF PARTICIPATION REPORT THEY ARE TAKING A WAIT AND SEE ATTITUDE, ARE IN NO HURRY TO MAKE NEW COMMITMENTS IN NORTH SEA, AND CONSIDER THAT GOVERNMENT PARTICIPATION WILL REDUCE ACTIVITY AND EXTERNAL FINANCING IN HIGH RISK/HIGH REWARD FIELDS. ALSO UNANSWERED IS QUESTION OF HOW DOES GOVERNMENT INTEND TO PAY COST OF ITS 51 PERCENT PARTICIPATION, WHEN IT

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

CLEARLY DOES NOT WANT TO MAKE THE ENORMOUS OUTLAY THAT WOULD BE REQUIRED IF PAYMENT WERE FINANCED FROM THE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 12780 02 OF 02 181924Z

BUDGET.

8. US OIL COMPANY OFFICIAL SAYS COMPANIES ARE NOW CONSIDERING GOVERNMENT PROPOSAL. THIRD ROUND OF DISCUSSIONS UNLIKELY TO BEGIN BEFORE LATTER PART OF SEPTEMBER. HE DOES NOT EXPECT "HARD" NEGOTIATIONS TO BEGIN UNTIL BNOC OFFICIALLY ESTABLISHED PERHAPS IN OCTOBER.

RICHARDSON

CONFIDENTIAL

NNN

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, LEGISLATIVE BILLS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: RowellE0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON12780
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X1
Errors: N/A
Film Number: D750285-0279
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750844/aaaabmgo.tel
Line Count: 241
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 LONDON 9080
Review Action: RELEASED, APPROVED
Review Authority: RowellE0
Review Comment: n/a
Review Content Flags:
Review Date: 21 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 MAY 2003 by ShawDG>; APPROVED <07 OCT 2003 by RowellE0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NORTH SEA OIL: PARTICIPATION NEGOTIATIONS
TAGS: ENRG, EFIN, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006